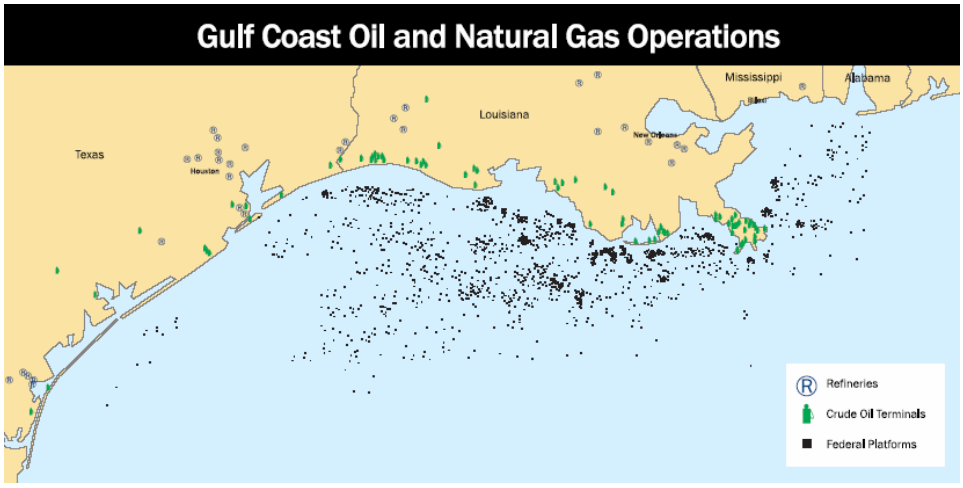
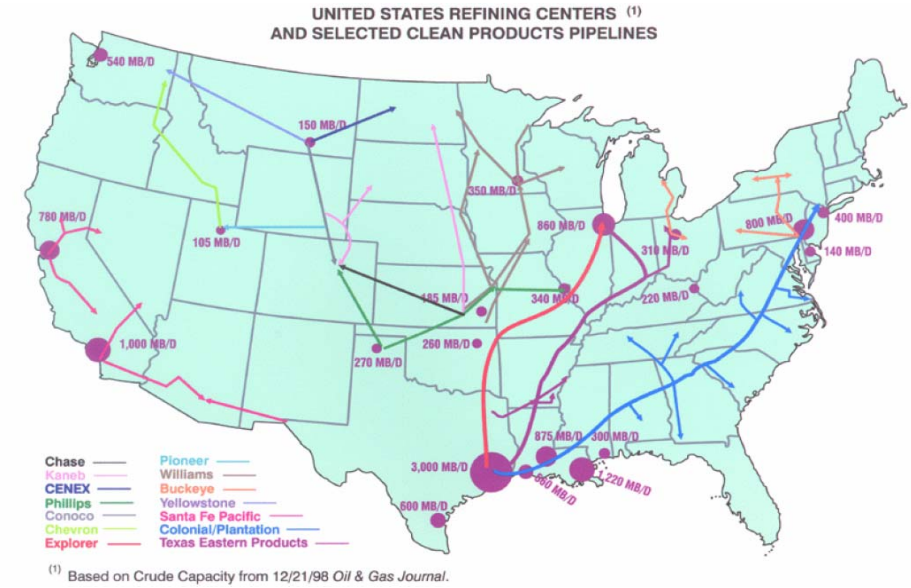
Contributing Factors to the Price at the Pump

A variety of factors contribute to the price of gasoline in the United States. These factors include worldwide supply, demand and competition for crude oil, taxes, regional differences in access to gasoline supplies, and environmental regulations for gasoline.

Importance of the Gulf of Mexico Region

- Several major crude oil and petroleum product pipelines run to, from, and through Louisiana and Mississippi.
- The Gulf Coast region shipped 4.5 million barrels per day of products to other parts of the country in 2004.
    - Of those 4.5 million barrels, 3.7 million was by pipeline, and the rest by tanker of barge. This represents 1/5 of U.S. daily consumption.
- The region also sent 1.9 million barrels per day of crude oil to the Midwest by pipeline.
- Product shipments from the Gulf Coast to the East Coast were 3.2 million barrels per day, with 2.5 million barrels per day via pipeline.
- The Midwest got 1.1 million barrels per day of products, 994 thousand barrels per day by pipeline and 150,000 barrels per day by barge.
- On the Gulf of Mexico Outer Continental Shelf, there are some 6,500 oil and gas production facilities and 120 drilling rigs.
- According to the Minerals Management Service, there are 30,000 – 35,000 offshore workers at any given time – including production, drilling, and service and supply workers.





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- Worldwide supply, demand, and competition for crude oil are the most important factors in the national average price of gasoline in the United States.
- Over the past 20 years, changes in crude oil prices have explained 85 percent of the changes in the prices of gasoline nationwide. The demand for crude oil has grown significantly over the past two decades, as well, leading to higher prices at the pump.
- Gasoline supply, demand, and competition produced relatively low and stable average real U.S. gasoline prices from 1984 until 2004, despite substantial increases in U.S. gasoline consumption.
- Since 1984, increased gasoline supplies from U.S. refineries and imports helped meet increasing demand and kept gasoline prices relatively steady.
- For most of the past 20 years, real average retail gasoline prices in the United States, including taxes, have been at their lowest levels since 1919, with U.S. refiners adopting more efficient technologies and business strategies that have allowed them to produce more refined product for each barrel of crude they process.
- Regional differences in access to gasoline supplies and environmental requirements for gasoline affect average retail prices and the variability of regional prices.
    - Different regions of the country differ in their access to gasoline supplies, and these differences affect gasoline prices.
    - Gasoline prices on the East Coast, in the Midwest, and in the Rocky Mountain states are significantly more variable than Gulf Coast gasoline prices, due to the availability of excess refining capacity along the Gulf Coast.
    - Regional environmental requirements for “boutique” fuels, such as CARB gasoline requirements in California, can limit substitute gasoline supplies and can thus lead to cost increases during supply shortages.

Accounting for Pricing Differences

- Stations have a lesser role in pricing than most consumers realize. There are four factors that make up what you pay at the pump:
    - Crude oil prices;

    - Gas refining costs;
    - Taxes; and
    - Retail markup.
- In 2004, the national average for markup on a gallon of gas was 12.7 cents, and that's before the costs of operating a station.
- Gulf Coast states have lower average costs for gasoline because of their proximity to the Gulf of Mexico, which is the source of nearly half the gasoline produced in the U.S. That dependence means that these states will be hit with much higher prices as Gulf production has stalled.
- Station to station variations are more likely caused by differences in suppliers.
    - Major gas chains have long-term supply deals with stations. That means that their stations aren't able to get the cheapest prices when wholesale prices drop. Conversely, they can offer relatively lower prices when the general market spikes.
    - Most independent stations get their oil from spot markets -- where gas is exchanged on commodities markets -- which means they can regularly shop for the lowest price, but are also a lot more vulnerable to supply shortages.
- Gouging is distinct, by definition, from price fixing, which is the collusion of multiple gas stations to set prices. Gouging is the act of an individual station taking advantage of supply problems (and even perceived supply problems).